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The Effect of Remuneration Committee on Dividend Policy in China

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ABSTRACT

Since the 1990s, the corporate governance became a policy issue people continued to focus on in developed countries. After the Asian financial crisis, corporate governance reform becomes a hot topic in Asian countries and regions, especially, scholars study this topic just in recent years in China. China' equity holdings of listed companies are different with other market. Majority stocks are concentrated in the hands of the company's internal management control, which has limited the development of the China listed companies in corporate governance. And this may bring interest conflicts among shareholders and managers. This study is aimed to check whether China's corporate governance especially remuneration committee has effects on dividend policy (Dividend per share and Dividend yield) through some empirical works with the quantitative research methodology.

This research use regression model and ANOVA analysis to check the validity and reliability of independent variables(the existence of remuneration committee, number of independent directors in RC, RC size, BOD size, independent ratio of RC, CEO membership, industry, market value, total assets, total revenue and leverage).

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1. Introduction

As one of the major distribution channels for investors, dividend is regarded by scholars as one of the most important financial policy for companies, decided through the tradeoff between shareholders and debtors. It could be a way to balance relative stakeholders' benefits. However, to ensure the distribution and execution of dividend policy, corporate governance can help to distribute and execute, as a representative institute of all relative stakeholders. China equity holdings of listed companies are different from other markets. Majority stocks are concentrated in the hands of the company's internal management control, which has limited the development of the China listed companies in corporate governance. And this may bring interest conflicts among shareholders and managers.

Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed (Shailer, Greg, 2004). It not only points out the responsibilities and rights of company's various participants- e.g. the board of directors, managers, shareholders and other stakeholders, but also makes clear and defines the decision-making rules and procedures that corporate affairs should follow. According to Shleifer and Vishny (1997), corporate governance is to ensure finance suppliers (investors) to guarantee their investment gains. Due to the problem of agency, outside investors worry about their own interests will be occupied by managers. They try to ensure their return on investment through corporate governance. However, there is a stakeholders point about corporate governance. Some scholars (Cochran and Wartick, 1988 Blair, 1995) consider corporate governance should deal with not only the principal-agent problem, but also the stakeholders' problem, including the suppliers, employees, debtors, society, etc. They keep the stakeholders as important as shareholders. The core of corporate governance is the principal-agent problem, which roots from the separation of ownership and managerial authority, and further the inconsistent interests of the owners and operators. The goal of corporate governance is to reduce agency cost, making the owner not intervene the day-to-day operations of the company, and at the same time ensuring managers to operate the company and achieve the interests of shareholders and the company's profit maximization.

Corporate performance refers to an enterprise’s management benefit in a certain operation time. Since the operator’s performance can be seen from the company performance, mainly displaying in profitability, assets operation level, solvency, subsequent development ability, and other aspects, is an indicator to check and evaluate manager agency result.

Dividend distribution policy of listed companies decides the method to distribute profit or keep retained reinvested earnings. It affects the companies’ cash holding. If a company pays more on cash dividend, it means it will have less cash to be used in the company’s daily management, like investment on research and development, payment on debts. If a company pays less cash dividend, it may have more money on investment or payment for debts. Meantime, it may also pay less to shareholders and impact shareholders’ interests to keep company stocks, furthermore, lose investors, especially short-term investors. Thus, dividend policy can be seen as a mechanism to balance the relationship of relative stakeholders.

Dividend distribution rights belongs to the general meeting of shareholders, but the concrete scheme of dividend distribution is put forward by the board of directors, especially remuneration committee (RC) or compensation committee that determined by the shareholders general meeting. In addition, when the committee is formed, many other factors like industry, income, performance can be considered. It can be said that dividend policy plays a key role in the company management, affecting the company's future long-term development, the requirement of the shareholders’ return on investment, and the rationality of capital structure.

From a legal sense, corporate governance needs to solve the problem of distribution of the rights of the company, and the core is power distribution between the general meeting of shareholders, the board of directors, the board of supervisors and managers, and their mutual supervision and restrain. The organizations, through enjoying their own legal rights, together constitute the company's decision-making, execution and supervision system, to ensure the health and sustainable development of the company.

To sum, dividend policy is an important way to solve the corporate governance agent problem to attract more investors, guarantee the corporate performance as well as the shareholder’s

interests. In addition, Corporate governance especially remuneration committee affects dividend policy.

The factors to affect the dividend policy can be industry norms, legal binding, contract restraint, macro-economy, corporate performance, corporate governance and shareholders. Every company's corporate governance determines its dividend policy according to their company's special conditions through board of directors, general meetings of shareholders.

The biggest characteristic of American and British mode is highly dispersed shareholders and liquidity, and the corporate governance structure depends on the enterprise's highly operating transparent and corresponding perfect legislation and law enforcement mechanism. German and Japanese mode has relatively concentrated and stable shareholders. Big shareholders have very strong control ability to the company's daily operation and management, thus forming a "strong shareholders and weak management" phenomenon. In most of East Asian and Latin American countries (regions), the company equity is concentrated in the hands of the family, and forming "strong family shareholders and weak small and medium-sized shareholders" characteristic.

China's corporate governance is different with these countries. China's state-owned shares cover most of the shares, which were non-tradable. In September 4th, 2005, China Securities and Futures Commission issued "the management measures for the reform of non-tradable shares of listed companies", and since then equity division reform of China entered a full-scale stage. After almost ten years' development of the reform, China's securities market lifts the restriction of non-tradable shares, solves the supply-demand problem, fosters relationship of big and small and medium shareholders, protects their interests and improves Chinese company's corporate governance structure. Further, China's securities market becomes more open, fair and free. Thus, the dividend policy of listed companies in China can become a mutual restriction result between holding shareholders, minority shareholders and management, which has a very important role to mitigate the agency problem of corporate governance structure.

Modern corporate system's separation of ownership and management leads to the principal-agent relationship, and the different interests of the two parts greatly increased the agency costs (Jensen and Meckling 1976). According to agent theory (Ross, 1973), the key to solve this contradiction is to establish a set of effective incentives and constraint mechanisms or a relative fair organization to supervise the company's operation and profit distribution. Based on this, as a legal organization of listed company, corporate governance mechanism legally plays as the role to balance the interests of principal and agent of one company. To add, dividend policy, as a result determined by the board of directors and general meetings of shareholders to distribute the ending profit of listed companies, logically is considered to protect the interests of company and shareholders, and reflects the corporate governance ability of one company.

Nevertheless, there are still doubts about the effectiveness in the practical operation when the organization of corporate governance determines the dividend policy. For instance, China's corporate governance research falls behind the development of practice. Zhao (2010) studied the factors influencing the dividend policy, which are equity structure, company profitability, and firm size. Different firm size or equity structure may produce different dividend policy. Different company development period or corporate performance may also cause different dividend distribution policy on forms, types, time or other possible policy. Xiong (2009) pointed out that the structure difference of corporate governance may lead to the difference of dividend policy. Wu (2010) kept the similar point with Xiong.

The corporate governance practice lacks standardized guidance to follow to decide the dividend policy, which can be further studied in China. Different power distribution of board of directors, CEO and board of supervisors can be also one probable cause to different dividend policy. Even members of board of directors can affect the dividend policy.

Remuneration committee or compensation committee may include CEO, independent director members, representing different power or interest groups of the company. RC may influence compensation policy for managers and employees, and shareholders' return- dividend in certain degree.

For listed companies in China, their corporate governance structure is built not well enough, e.g. not having remuneration committee, large shareholders having too many power in BOD, small and medium shareholders have no possible rights to impact dividend payout policy. Whether these factors affect dividend policy in practice in China, and the relationship between corporate governance and dividend policy in China after its reform of non-tradable shares of listed companies should be studied further.

Thus, the dividend policy can be taken as a dependent variable and corporate governance and remuneration committee can be taken as an independent variable. And the research keeps the agency theory as the fundamental theory to study the effectiveness of corporate governance, especially the remuneration committee on dividend policy.

Although there are many factors influencing dividend policy, this research mainly studies the effects of corporate governance on dividend policy, especially the effects of remuneration committee on dividend policy in China.

2. Literature Review

2.1 Corporate Governance Agency Theory

Corporate governance refers to the relationship between the company's shareholders, directors and managers in a narrow sense. Corporate governance structure is a kind of corporate system framework, which is used to link and specify shareholders, board of directors, managers' power, obligations, and interests' distribution (Xiong, 2009). Different corporate governance structures lead to different policies, including investment policy, financial policy and also dividend policy.

Since American scholar Bailey and Means (1932) published "modern joint-stock companies and private property", putting forward the concept of corporate governance structure, many scholars have studied the theory of corporate governance from different angles, forming the basis of governance structure, which includes beyond property rights theory (Martin & Park 1997; Tittenbrun, 1996), the separation of ownership and control theory (Martin & Park, 1997), agency theory (Jensen & Meckling, 1976) and stakeholders theory (Freeman, 1984). Among them, it can be said that agency theory is the basis of other theories. This study

summarizes the agency theory related studies, which links managers and shareholders, and the relationship of remuneration committee and dividend policy.

According to agency theory, the most direct problem brought by the separation of ownership and control, is how to supervise operators to conduct business decisions, as the owner without control right, to achieve the goal of maximizing the interests of the owners, rather than to abuse management decision-making rights (Bailey and Means, 1932). This is the core problem the principal-agent theory trying to solve. Principal-agent theory is an important part of corporate governance theory. Under the separation of owners and controls company system, agency theory summarizes the features of the owner (principal) and managers (agent) relationship as follows: economic interests is not completely consistent, both take unequal risks, asymmetric information about the company operating and capital operation conditions. Operators or mangers are responsible for the company's day-to-day operations, and they have absolute information superiority. It is likely that their aims and motions are not consistent with the interests of the owners and the company, and even damage the interests of company and owners, to pursue self-interest maximization.

The interest of shareholders is to maximize their returns, the interest of debtors is to pay back their money, and the managers want more compensation and their needs are different and may sacrifice others' interests to pursue their own benefits. For example, when shareholders make dividend policy, in order to get dividend, they may issue bonds to pay for dividends, or reject the zero-NPV projector investment. On the other hand, debtors hope to reduce paying for dividend to keep enough cash flow. When the company has more cash, managers may invest money on low return project to get more allowance, commissions, or company-paid consumption. Then the agency problem arises.

In order to avoid the agency risk and ensure capital safety and the greatest return on investment capital corporate governance can provide one mechanism to balance all stakeholders' benefits. It can function through employee stock ownership or executive stock ownership. When managers' compensation is linked to shareholders' interest, there would be a control mechanism of agency problem. Stulz's (1988) research showed that managers having moderate ownership can mitigate the conflict of interests with shareholders. Schooley and

Barney (1994) pointed out that managers owning stocks affected the company's dividend policy, and they found that a significant stock ownership increased the motivation of the managers to allocate excess cash, rather than use it for investment. When the CEO held more than 14.9% of the total number of shares, the company had higher rate of dividend payment.

To sum, agency theory can be the theoretical basis to describe the relationship of corporate governance and dividend policy, helping to make financial decisions especially the dividend policy decisions, as it pays more attention on some qualitative studies.

2.2 Researches in China

China's stock market was built in 1990, and developed oddly, in which state-owned stocks cover more than half of the total number of stocks until the reform of shareholders structure in 2005. Corporate governance is still a fashion and hot topic in China, unlike other developed countries. The study of Chinese scholars about dividend policy and corporate governance always applies the developed countries' research into China's market and combines them with China's own characteristics.

Chen (1998) selected 86 listed companies as samples from 311 A-shares companies listed before 1995 to check the three different dividend policy's premium effect on stock with CAR value, and found that there were almost no excess earnings when considering trading cost for cash dividend policy comparing with stock dividend and mixed dividend. Wei (2000) analyzed Chinese listed companies' dividend distribution policy from 1994 to 1997, and found that it was instable and lack of continuity. Chen and Yao (2000) found cash dividend had no signaling effect with event study methodology, and they believed that China's securities market have no tradition to pay dividend that time. Yu and Chen (2001) also prove dividend had no signal effect using 9 years' data on B-share and H-share market samples. Lv and Wang (1999) built a regression model using dividend per share as dependent variable and executive stock proportion as independent variable, and found that there existed correlation between agency cost and dividend policy, and the higher the agency cost, the lower the dividend. Yi and Zhang (2006) indicated that dividend policy can link managers' incentives and reduce agent cost through the regression model analysis. Liao and Fang (2004) studied

management shareholdings' effect on agency cost and dividend policy, and suggested using management holding to dissolve the agent problem. Wu (2003) and Peng (2004) found that when ownership structure was good for small and medium shareholders, it tended to pay more cash dividend.

After 2005, there were also some researchers studied the relationship between corporate governance structure and dividend policy. Xiong (2009) built conducted yearly regression analysis and concluded that the higher the ownership concentration degree is, the higher the company's dividend yield is. Moreover, the higher the circulated shares proportion is, the lower the dividend payout ratio are; there was significant negative correlation between the independent directors' proportion and dividend payout ratios; the size of the board of supervisors had no relation to dividend payout ratios. Ai (2013) found that listed company's largest shareholder ownership, fender index, number of BOD, proportion of the independent directors and management equity percentage had positive correlation to the listed company's dividend payment rate, using SPSS analysis. Shi (2013) studied the relationship of corporate governance structure and cash dividend policy through qualitative and quantitative methods. He summarized and researched many other scholars' studies and found that corporate structure angle is less used by China scholars. He focused on the key time to pay dividend, when to pay, how to pay, and the ownership structure can affect dividend policy significantly, without considering the structure of BOD. Zhang (2014) collected year 2010 to 2012 listed companies' data to study how corporate governance structure affects dividend policy, used four main variables-corporate governance transparency, equity concentration, incentives and BOD's effectiveness to build a logistic regression model and found that corporate governance transparency had no relation with dividend policy; the higher concentration degree is, the higher the dividend yield is; more incentives lead to higher dividend (both cash dividend and stock dividend), and finally BOD's effectiveness had relationship with dividend policy. However, he did not point out the impact of dividend policy-positive or negative.

Scholars in China focused more on the signaling effect of dividend policy rather than agency angle, especially corporate governance. And there is no study of the effect of remuneration committee on dividend policy, which means that this study will fill in this gap.

2.3 Researches in Other Countries

As stated in the theories review part, scholars in developed and developing countries are conducting the related study theoretically and empirically. But the studies in these areas also show different conclusions. Some found that better corporate governance companies paid higher dividend. Whereas, some found that firms with worse corporate governance kept higher dividend.

Gugler (2003) examined the impact of corporate governance on dividend policy using Austrian firms as sample to test the impact of ownership structure, either government owned companies or family control companies, on dividend policy from 1991 to 1999, which showed that the state-owned companies tend to manage their dividend, while family-owned do not. Yurtoglu (2003) investigated the effect of corporate governance on the dividend policy in Germany during 1992-1998 periods. He focused on the conflict between majority and minority shareholders. The result on this research showed that the majority shareholders in Germany expropriate minority shareholders. Jiraporn and Ning (2006) examined the impact using the US samples, including 1,500 firms from the NYSE, AMEX and NASDAQ. The result revealed a negative correlation between shareholders' rights and dividend policy. Setiawan and Lian (2013) examined the effect of corporate governance on dividend policy in Indonesia. Indonesian companies tended to compensate their poor corporate governance through higher dividend payment. There is also a negative effect of corporate governance on dividend payment.

La Porta et al. (2000), Mitton (2004), Kowalewski et al. (2008), and Sawicki (2009) showed a positive relationship between corporate governance and dividend policy. They examined developed and developing countries' market data. The results of their samples showed same results that corporates with better governance practice brought higher dividend to investors. Mertzanis (2011) found that effectiveness of corporate governance on agent problem in Greece. Harada and Nguyen (2011) found ownership concentration is linked with lower dividends in proportion to earnings as well as relative to book equity. Shank, Hill and Stang (2010) utilized a comprehensive measure of governance as well as a risk-adjusted measure of share price in its comparisons between companies known for good governance and broader

markets composed of similar-sized firms to find that good governance brought benefits to investors. Abor and Fiador (2013) used more than 500 African firms' samples during 1997-2006, and regression model to examine the effectiveness of corporate governance on policy in Africa and found no agreed conclusion.

2.4 Research Framework

Since Berle and Means (1932) put forward the proposition "Berle and Means", how to design effective manager compensation contract to reduce agency cost, had become the core issue of the principal-agent theory researches. In western countries, like USA, the responsibility to develop executive managers' compensation is assigned to board of directors' remuneration committee. Remuneration committee is a generally the standing committee of the board of directors for the company, appointed by the board of directors, consisting of four to six board of director members. Among them, most should be independent directors, exercising their functions and powers by the remuneration committee meeting. The main functions of this committee can possibly be: the assessment of executive managers' performance; develop and supervise executive managers and directors' compensation plan; develop staff pension benefit and profit sharing plan, etc.

The reason listed companies pay so many attentions on executive managers' performance and compensation is the existence of agency problem. It is impossible that thousands of shareholders manage the company by their own. They must find appropriate agents to represent them to run the company. In fact of modern company management, managers and specifically executive managers, serving as agents are the real operators of the companies. While, as economic persons, managers would like to pursue their own benefits mostly other than to maximize the company benefits or shareholders' benefits. Thus, companies hope to find a suitable method to balance all parts' rights and benefits including shareholders, directors, managers, employees and other possible stakeholders of companies, to enable companies run well and make money for shareholders.

Organizing remuneration committee in corporate governance is just one way to reduce agent cost theoretically. Whether remuneration committee can make effective compensation

contract, solve the problem of agency, and make money for shareholders through the compensation incentive, is the most important measure to check remuneration committee effectiveness. About the compensation incentive for managers, executive manager's stock incentive compensation is generally used. As stock incentive compensation links managers and shareholders' benefits together, rationally, it should be effective to reduce agent cost and protect shareholders' benefits, according to agency theory on dividend, which has been talked about in the former pars. Then it can be said that remuneration committee has a rational relationship with dividend-the return of shareholders. What about the real situations? Does corporate governance especially remuneration committee affect dividend policy? This research tries to answer this question in an empirical way.

In China, corporate governance of listed companies developed several years ago. The corporate committee may have no remuneration committee in board of directors, and many of remuneration committees are set deficient. Whether listed companies have remuneration committee in their board of directors is not clear in Chinese listed companies. Whether listed companies having remuneration committee in China tend to pay dividend in cash and whether the relationship is positive or negative cannot be definite. Besides remuneration committee, several external and internal company factors-market and company performance factors are also included, like market value, industry, total assets, total revenue and debts-to-assets ratio. The essential factors influencing dividend policy decision making come from the company performance.

About remuneration committee, its existence, size, formation and BOD size can be used as the research factors affecting dividend policy. While dividend policy is as well impacted by industry, company management performance and related factors are also included. Dividend policy here refers to cash dividend including dividend per share and dividend yield. Research framework of this study is as follow:

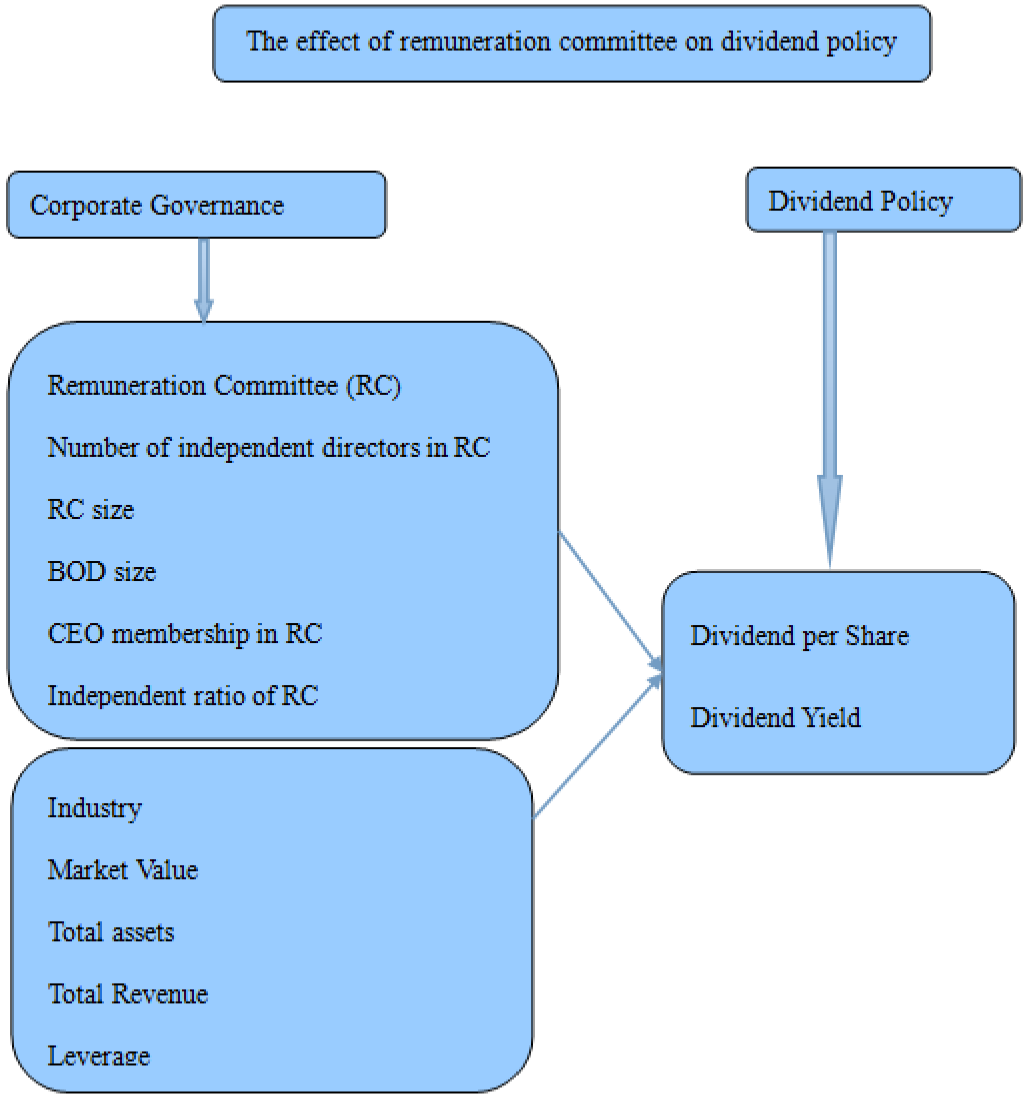

Figure 1

Research Framework

3. Methodology

Multiple linear regression model is adoptable to help to examine the relationship between remuneration committee and dividend policy, with ten multiple independent variables and two dependent variables. Independent Variables are:

X1: The existence of remuneration committee, dummy variable, equals to 1 if it RC exists.

X2: Number of independent directors in remuneration committee

X3: Size of Remuneration Committee, number of members.

X4: Size of Board of Directors

As China Securities Regulatory Commission's requirement, a listed company's directors must be more than 2 people. Then $X4 \geq 2$.

X5: CEO membership in remuneration committee, dummy variable, equals to 1 if CEO is member

X6: Industry- China Securities Industry Index (CSII)

X7: Market value

X8: Total assets; X9: Total revenue; X10: Leverage; X10: Debts-to-assets ratio

X11: Independent ratio in RC, meaning the ratio of X2 to X3

X1, X2, X3, X4, X5 and X11 are variables to describe corporate governance or remuneration committee related factors, X6, X7, X8, X9, and X10 can be used as variables demonstrating market related or company performance related factors..

Dividend policy is the dependent variable in this study and is determined by shareholders general meetings, proposed by remuneration committee or other possible institutes or people, mainly means a list company pay dividends or not, when to pay, how to pay, what is the dividend per share, etc. Dividend is part of company's return earnings, and is return of shareholders' capital, related to a company operation performance. It can be cash dividend or stock dividend. Here cash dividend will be studied, because it is a kind of timely return on

investment, reflecting a company's profitability. Dividend per share shows cash return for each stock. Dividend yield demonstrates the percentage of dividend per share covers stock price, reflecting the return on each Yuan, which is also an important index to show the company's investment value. The higher, the better.

Y1: Dividend per share

Y2: Dividend yield (Dividend per share/Stock price)

Therefore, the regression equations are:

$$Y_1=\alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \beta_{10}X_{10} + \beta_{11}X_{11} + \varepsilon$$

$$Y_2=\alpha + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \beta_7X_7 + \beta_8X_8 + \beta_9X_9 + \beta_{10}X_{10} + \beta_{11}X_{11} + \varepsilon$$

Where α is the concept, βs are the coefficients, and ε is the regression error term.

3.1 Sampling Method

China's economy is different from other developed countries e.g USA, UK, Germany, its security market developments is not advanced as well. Although China has improved its security policies and rules, there are still lots of area of improvements. This study selects 150 A-share companies from Shanghai and Shenzhen securities exchange center. All the sample companies paid dividends in 2014. To illustrate, A-share companies are China's domestic companies listed in Shanghai or Shenzhen securities exchange center, and their stocks are traded by Chinese and in Chinese Yuan. The related data comes from database of China Securities Regulatory Commission, Shanghai and Shenzhen Securities Exchange Center.

3.2 Test Methods

The test methods for multiple regression models can be helped with SPSS. In the results of the SPSS output R^2, F test and T test value can be reported. R^2 explains X variables effect degree on Y. R^2 is between 0 and 1, the closer to 1, the stronger it shows that X's explanation ability on Y. F-test is putout through the analysis of ANOVA, and its value shows linear relationship of regression equation is significant or not. Generally, when the significance level value is less than 0.05, the regression model is meaningful. When F-test is pasted, it means

that the equation has at least one significant regression coefficient, but it does not mean all of the regression coefficients are significant. Hence, F-test indicates the model fit. Then T-test is used to verify the significance of regression coefficient of each variable. P-value is a decreasing indicator of the credible degree to show coefficient's validity, the lower the p-value is, the more we believe sample variables are associated to the overall variable. P-value keeps the point that the observation is effective, and it has general representative error probability. In the research, 0.05 (p-value) is generally considered to be the boundary of the acceptable error level.

4. Data Analysis

4.1 Descriptive Statistics

There are more than 2,600 listed companies in China's A-share segment, but 150 A-segment listed China companies samples from Shanghai and Shenzhen Exchange Center in the study are selected to represent the whole A-share segment. 58 companies are from Shenzhen market and 92 companies are from Shanghai market, and the distribution ratio is as the same as the real market. All the samples' data used are generated in their 2014 financial year.

4.2 The Existence of Remuneration Committee

Among the 150 samples, only 10 companies have no remuneration committee, covering 6.7% of all the samples. Based on the results, most of China listed companies have remuneration committee.

Table 1

Existence of RC

Existence of RC	Frequency	Percent	Valid Percent	Cumulative Percent
0	10	6.7	6.7	6.7
1	140	93.3	93.3	100
Total	150	100	100	

4.3 Number of Independent Directors in RC

According to Table 2, the number of independent directors in RC is between 0 and 5. The 10 samples are all companies having no RC in their corporate governance. Other 140 samples have independent directors in RC, and 2 or 3 independent directors' samples occupy 74.7% of all. There are only 3 samples having 5 independent directors in RC, and 16.7% of samples are those who have 4 independent directors.

Table 2

Number of independent directors in RC

# of independent directors in RC	Frequency	Percent	Valid Percent	Cumulative Percent
0	10	6.7	6.7	6.7
2	52	34.7	34.7	41.3
3	60	40	40	81.3
4	25	16.7	16.7	98
5	3	2	2	100
Total	150	100	100	

4.4 RC Size

Through table 3 and figure 1, 51 samples have 4 members in RC, covering the highest percent-34%. 3-member and 5-member RC follows up, covering 27.3% and 18%. 6-member RC covers 14% of all samples.

Table 3

RC size

RC size	Frequency	Percent	Valid Percent	Cumulative Percent
0	10	6.7	6.7	6.7
3	41	27.3	27.3	34
4	51	34	34	68
5	27	18	18	86
6	21	14	14	100
Total	150	100	100	

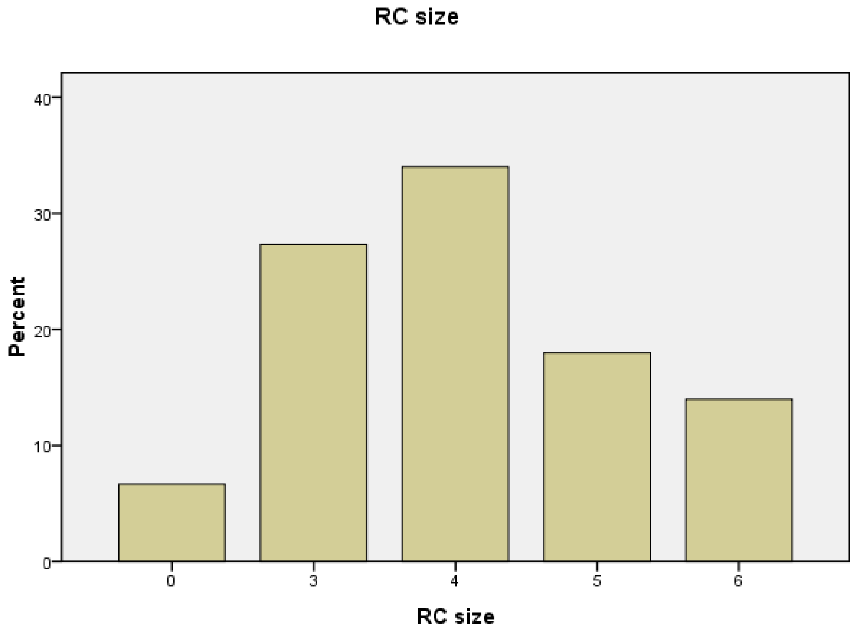

Figure 2

RC Size

Table 5

BOD size

	Frequency	Percent	Valid Percent	Cumulative Percent
5	2	1.3	1.3	1.3
6	5	3.3	3.3	4.7
7	14	9.3	9.3	14
8	16	10.7	10.7	24.7
9	46	30.7	30.7	55.3
10	11	7.3	7.3	62.7
11	15	10	10	72.7
12	13	8.7	8.7	81.3
13	10	6.7	6.7	88
14	6	4	4	92
15	3	2	2	94
16	2	1.3	1.3	95.3
17	2	1.3	1.3	96.7
18	3	2	2	98.7
19	1	0.7	0.7	99.3
22	1	0.7	0.7	100
Total	150	100	100	

From the tables above, it can be understood that the BOD size in China is always from 5 to 22 members, and 9-member BOD covers most among all samples, which is 30.7%.

4.5 CEO Membership in RC

From the table below, there are only 9 samples whose CEO is a member of RC, and most companies' CEOs do not participate in the organization.

Table 6

CEO membership in RC

CEO membership in RC	Frequency	Percent	Valid Percent	Cumulative Percent
0	141	94	94	94
1	9	6	6	100
Total	150	100	100	

4.6 Dividend Payment Situation Description

Table 7 states the mean value of 150 companies' dividend per share which is RMB 0.245397. The highest dividend per share is RMB 4.3740, and there are also companies which did not pay for dividend in 2014. Table 8 shows that, the average dividend yield of 150 samples is about 1.66%, and the highest dividend yield is 7.3%.

Table 7

Dividend per share

Dividend per share			Dividend Yield		
Valid		150	Valid		150
Missing		0	Missing		0
Mean		0.245397	Mean		0.016625
Minimum		0	Minimum		0
Maximum		4.374	Maximum		0.073009
Percentiles	20	0.05	Percentiles	20	0.003506
	40	0.1		40	0.009451
	60	0.2		60	0.015485
	80	0.35		80	0.02744

4.7 Market And Company Performance Related Variables Description

Figure 2 shows the industry distribution. There are 21 main industries used in this study, and its distribution proportion follows the real market in China. According to the table 9, the market values, total assets and total revenue of samples are not uniformly distribution, and most companies' market value, total asset and total revenues are less than mean value. While debts-to-assets ratios are relatively uniformly distribution. It ranges from 3.45% to 94.82%.

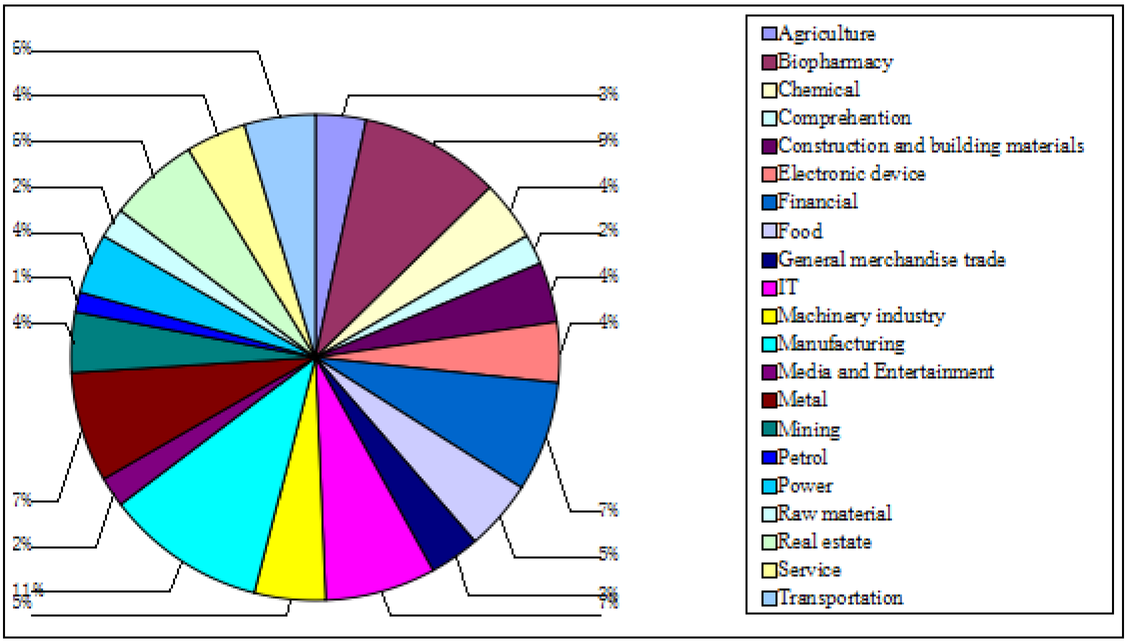

Figure 3

Industry Distribution

Table 9

Market and company performance related variables description

	Market value	Total assets	Total revenue	Debts-to-assets ratio
Valid	150	150	150	150
Missing	0	0	0	0
Mean	755.9521	17197000	2694500	0.527119
Skewness	5.596	5.824	10.82	-0.198
Std. Error of Skewness	0.198	0.198	0.198	0.198
Minimum	155.12	245975	52891.6	0.0345
Maximum	9588.84	5.03E+08	1.36E+08	0.9482

4.8 Multiple Regression Analysis

There are two parts in this section, which is the model test-ANOVA test and variable coefficient test to demonstrate the regression equation's validity and reliability.

4.9 ANOVA Test

Table 10

Model summary for model 1-dividend per share is dependent variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.449a	0.202	0.137	0.404058

a. Predictors: (Constant), Independent ratio in RC, Total assets, CEO membership in RC, Industry index, Total revenue, Debts-to-assets ratio, BOD size, RC size, Market value, Existence of RC, #of independent directors in RC

Table 11

Model summary for model 2-dividend yield is dependent variable

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
	.474a	0.225	0.162	0.015122

a. Predictors: (Constant), Independent ratio in RC, Total assets, CEO membership in RC, Industry index, Total revenue, Debts-to-assets ratio, BOD size, RC size, Market value, Existence of RC, #of independent directors in RC

From the tables above, both R square are more than 0 and less than 1, which means the models can be used in this study.

Table 12

Model 1's ANOVA test

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	5.567	15	0.506	3.1	.001a
	Residual	22.04	135	0.163		
	Total	27.608	150			

a. Predictors: (Constant), Independent ratio in RC, Total assets, CEO membership in RC, Industry index, Total revenue, Debts-to-assets ratio, BOD size, RC size, Maeket value, Existence of RC, #of independent directors in RC

The table shows that, F-statistic is 3.100, and its significance (P-value) is 0.001a, less than 0.05, which means that the regression model can be used to explain the relationships of dependent variable and independent variables overall.

Table 13

Model 2's ANOVA test

ANOVA[b]						
Model		Sum of Squares	df	Mean Square	F	Sig.
2	Regression	.009	14	.001	3.565	.000[a]
	Residual	.031	136	.000		
	Total	.040	150			

a. Predictors: (Constant), Independent ratio in RC, Total assets, CEO membership in RC, Industry index, Total revenue, Debts-to-assets ratio, BOD size, RC size, Market value, Existence of RC, #of independent directors in RC

b. Dependent Variable: Dividend yield

This table shows that, F-statistic is 3.565, more than 1, and its significance (P-value) is 0.000, less than 0.05, which means that the regression model can be used to explain the relationships of dependent variable and independent variables as well.

4.10 Variables Coefficient

Table 14

Coefficients tests of model 1

Coefficients a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.207	.239		.864	.389
	Existence of RC	.861	1.473	.500	.584	.560
	#of independent directors in RC	.145	.476	.351	.306	.760
	RC size	-.105	.327	-.350	-.320	.749
	BOD size	.013	.019	.089	.703	.484
	CEO membership in RC	-.039	.151	-.022	-.260	.795
	Industry index	-4.228E-5	.000	-.047	-.575	.566
	Market value	.000	.000	.792	4.190	.000
	Total assets	-1.427E-9	.000	-.211	-1.651	.101
	Total revenue	-1.941E-8	.000	-.515	-3.314	.001
	Debts-to-assets ratio	-.569	.185	-.267	-3.076	.003
	Independent ratio in RC	-1.119	2.138	-.493	-.523	.601
a. Dependent Variable: Dividend per share						

From table 13, only significance of the three variables-market value (X6), total revenue (X9) and debts-to-assets ratio (X10) are less than 0.05, which means that there are relationships between market value and dividend per share, total revenue and dividend per share, debts-to-assets ratio and dividend per share. There is a positive correlation relationship between market value and dividend per share (Y1), a negative correlation relationship between total revenue and dividend per share, and a negative relationship between debts-to-assets ratio and dividend per share. It also shows that other variables have no significant relationship with dividend per share, as their p-values are all more than 0.05.

Table 15

Coefficients tests of model 2

Coefficients a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
2	(Constant)	.007	.009		.732	.466
	Existence of RC	.056	.055	.853	1.011	.314
	#.of independent directors in RC	.018	.018	1.173	1.036	.302
	RC size	-.016	.012	-1.435	-1.332	.185
	BOD size	.002	.001	.272	2.180	.031
	CEO membership in RC	-.002	.006	-.033	-.405	.686
	Industry index	-1.437E-6	.000	-.042	-.522	.603
	Market value	9.715E-7	.000	.059	.318	.751
	Total assets	5.601E-11	.000	.218	1.732	.086
	Total revenue	1.082E-10	.000	.076	.494	.622
	Debts-to-assets ratio	.003	.007	.036	.424	.672
	Independent ratio in RC	-.071	.080	-.819	-.882	.379
a. Dependent Variable: Dividend yield						

Model 2 examines the relationship between dividend yield and the 11 variables. It finds that only the significant of BOD size (X4) is less than 0.05 at this confidence level-5%, and it is correlated to dividend yield positively. But if the confidence level changes to 10%, total assets (X8) also can be correlated to dividend yield. While, other variables have no significant relationship with dividend per share, as their p-values are all more than 0.05, or even 0.1.

4.11 Summary of Hypotheses Tests

From the tests above, the hypotheses of this study can be summarized as Table 15. There are four hypotheses can be accepted, which are H6, H9, H10 and H19, while, other hypotheses have to be rejected.

Table 16

Hypotheses testing results

Hypotheses	Test result	Hypotheses	Test result
H1	Reject	H12	Reject
H2	Reject	H13	Reject
H3	Reject	H14	Reject
H4	Reject	H15	Accept
H5	Reject	H16	Reject
H6	Accept	H17	Reject
H7	Reject	H18	Reject
H8	Reject	H19	Accept
H9	Accept	H20	Reject
H10	Accept	H21	Reject
H11	Reject	H22	Reject

5. Discussion

The sections above shows that, at the 5% confidence level there is a positive correlation relationship between market value and dividend per share, a negative relationship between total revenue and dividend per share, and a negative relationship between debts-to-assets ratio and dividend per share; BOD size has a positive correlation with dividend yield, and total assets has a positive correlation with dividend yield as well; whereas, other factors-the existence of Remuneration committee, number of independent directors in RC, RC size, CEO membership in RC, industry, and independent ratio of RC are not significantly correlated with cash dividend policy in China.

5.1 Significantly Correlated Factors Discussion

5.1.1 Market value and total assets

Market value and total assets can be regarded as the representatives of a company's market participation and overall competence. The research results find that the better the companies' overall competences and the higher market participation, the higher companies prefer to pay dividend. Since large companies have much stronger abilities to manage their money and resource, and they always have strong financial ability to raise fund, so they have sufficient cash in hand, and tend to pay cash dividend. However, the ability to raise money for smaller companies is not as good as large companies, their working capitals are not that sufficient, and they prefer paying less cash dividend or even no dividend.

5.1.2 Total revenue

Total revenue is an index to show a company's operation ability, which is rationally considered that the higher the total revenue, the higher the dividend, while, the research results show an opposite finding on the contrary. It finds that companies having higher total revenue tend to pay less cash dividend. Dividend comes from part of net income, and actually high revenue does not mean high net income and high dividend. High total revenue always presents with high expenses, thus the net income cannot be precisely determined. Besides, since the existence of agent cost, the managers may not like to pay cash dividend by "making low net income", basing on their own benefits. What is more worth saying is that, high total revenue companies always have strong development ability and they tend to reinvest with net income rather than to pay cash dividend. Companies developing slowly may pay dividend to attract more stock investors.

5.1.3 Debts-to-assets ratio

The research results show that, the higher the debts-to-assets ratio, the lower the dividend per share. High debts-to-assets ratio refers to that debts covers high proportion upon assets of a company. Generally, different companies have different debts-to-assets ratios, referring to their own situations. When a company have large amount of debts, its operation pressure is high and it often has high financial risk. It prefers paying debts firstly rather than dividend.

Hence, debts-to-assets ratio has a negative correlation with dividend policy.

5.1.4 BOD size

Directors are voted by general meeting of shareholders and responsible for shareholders' benefits. Research results of this study show that the more members BOD has, the higher the dividend yield is. It means there is a positive relationship between BOD size and dividend policy in a certain level and the existence of BOD reduces the agent cost, according to dividend agency theory. It also proves that corporate governance is relatively effective in China, and it ensures shareholders' benefits seen from the data analysis. In China, before 2005, the state-owned companies always had small BOD size, and the large shareholders always focus on their own benefits without considering small and medium shareholders' benefits. With China securities market's development, more and more state-owned companies go to the public and the relevant rules and regulations are more normative. BOD size tend to be larger and more scientific to make decisions to protect small and medium shareholders' benefits. So the dividend yield is higher in large size BOD than in small size BOD.

5.2 Other Factors Discussion

The research results of the existence of remuneration committee, number of independent directors in RC, RC size, CEO membership in RC and independent radio of RC shows that the relationship of remuneration committee and dividend policy cannot be sure in this regression model. Remuneration committee is built to check, evaluate and make compensation plans of the listed companies, especially the managers and directors' compensation, basing on the principal to protect shareholders' benefits. Though almost all listed companies in China have the organizations-remuneration committee, and among most of them, independent directors occupy more than a half in RC, their functions on compensation policy making are not clarified. Because of the existence of agent cost, they have no rights to put forward a compensation policy but to listen, check and agree the compensation proposal. Most companies have only one remuneration committee meeting in a year, which is too formalized. RC members are always passive to accept the suggestions of company managers. But with the improvement of the professional abilities of China's

independent directors, remuneration committee is working more and more professionally and importantly, which can be seen from the amount rise of independent directors in descriptive statistics part.

Industry index is a macro-economy index to represent the segments' development situation. Different industries have different standards or requirements. It can be said that when the industry manages well, the companies in this industry should be well. Whereas, the development level of each companies is not unified. So the research finds that, the relationship between industry and dividend policy is not specific.

6. Conclusion

The study finds that the regression models are effective as a whole, but to test each variable's reliability and validity, the correlation to dividend per share and dividend yield cannot be sure.

As shown in table 13-coefficients tests of model 1, market value's coefficient is 0.792 with the significance of 0.000; total revenue's coefficient is -0.515 with the significance of 0.001; debts-to-assets ratio's coefficient is -3.076 with the significance of 0.003. So market value and dividend per share is positively correlated, because high market value often means the company has strong funding ability to pay dividend in cash; low market value company tends not to pay cash dividend. Total revenue and dividend per share is negative correlated unexpectedly. Because on one hand high revenue always costs high expenses and the result is low net income and low dividend. On the other hand, high total revenue companies always have strong development ability and they tend to reinvest. While companies developing slowly may pay dividend to attract more stock investors. Besides, since the existence of agent cost, the managers may not like to pay cash dividend by "making low net income", basing on their own benefits. Debts-to-assets ratio is negatively correlated with dividend per share, since higher debts-to-assets ratio always means higher debts. When a company can manage their free money, they tend to pay debts rather than dividend under the pressure from debtors.

Corporate governance of China has its own features. Board of directors is the main component of corporate governance, and the main constitute size of BOD ranges from 7 to 13 (Table 5), which is relatively scientific to make group decisions, not too many or too less.

According to table 14-coefficients tests of model 2, BOD size's coefficient is 0.272 with the significance of 0.031, which means there is a positive relationship between BOD size and dividend yield. The more members BOD has, the higher the dividend yield. The existence of large BOD size reduces the agent cost of a listed company, because more and more directors are selected to represent small and medium shareholders, and they tend to protect the benefits of them, and prefer to pay dividend.

The p-values of both models about the existence of remuneration committee, number of independent directors in RC, RC size, CEO membership in RC, and independent of RC are all larger than 0.05, so they cannot be used to reflect the relationship between remuneration committee and dividend per share, though the research shows that there is a high independent director occupation ratio in remuneration committee. The possible reasons can be the unfair rights distribution and unprofessional qualities of China listed companies' independent directors. Further, the lack of relevant laws and rules to guarantee independent directors' rights and quality also causes the unclear relationship between remuneration committee and dividend policy in China

To conclude, there is a positive relationship between market value and dividend per share, a negative correlation relationship between total revenue and dividend per share, and a negative correlation relationship between debts-to-assets ratio and dividend per share; BOD size has a positive correlation with dividend yield, and total assets has a positive correlation with dividend yield as well; whereas, other factors-the existence of Remuneration committee, number of independent directors in RC, RC size, CEO membership in RC, industry, and independent ratio of RC are not significantly correlated with cash dividend policy in China. In short, dividend policy has relationships with some corporate governance related factors like BOD size as well as market and company performance factors like market value, total revenue, and debts-to-assets ratio in a certain level in China. But the relationship of remuneration committee and dividend policy is not clear in this study.

7. Implications of Study

This research mainly studies the effect of corporate governance on dividend policy empirically, especially the effects of remuneration committee on dividend policy in China, filling up the gaps-China listed company's compensation committee structure's effects on dividend policy. After all the data analysis findings, this study has several implications for those who may link to remuneration committee, corporate governance and dividend payment issues.

For investors in China A-share market: since investors' aim is to achieve returns on investment and protect their benefits in the daily company management and dividend distribution processing, when investors select a company to invest, they can evaluate a companies' dividend payment potential through the company's historical dividend per share and dividend yield. Those companies having dividend payment history rationally tend to pay dividend in the following year. They can also reference the market index or company financial data like market value, total revenue and debts-to-assets ratio. When investors tend to buy and hold companies' stocks, they can predict the return on investment through the market value. High market value shows a high dividend payment, while low market value shows a low dividend payment. For total revenue and debts-to-assets ratio, higher values lead to higher dividend payment, thus they can choose to sell stocks in hand. Besides, investors can also estimate the dividend yield through the companies' board of directors size. Larger BOD companies tend to have a higher dividend yield.

For corporate management: The existence of remuneration committee and its high independent level protects both corporate management and shareholders' benefits. Because the corporate management's compensation plan and dividend distribution plan are both provided by remuneration committee, when the institute is relatively independent, fair and professional, the distribution plan will be scientific and meet their true needs. On the other hand, as market value, total revenue and debts-to-assets ratio have relationship with dividend policy, corporate management can run the company following the financial index requirements to attract more investors, and make shareholders have a high satisfaction.

For policy makers and government: this study find that BOD size is a significant factor related to dividend policy. The relatively large size of BOD is, the relatively fair the dividend distribution will be. Then as the policy makers, general shareholders meeting and government can make several regulations, laws and rules to limit the BOD size to make sure its optimum when making decisions. Besides, the independent ratio of RC should be positively correlated to dividend policy as estimated, but the result shows no relationship, which means that China's independent directors system is not scientific. The government should set regulations to authorize independent directors and limit their professional ability, thus, China's corporate governance of listed company can be more effective and not formalized.

For academia: this study provides new method of thought about the corporate governance's effect on dividend policy in China. Scholars always pay more attention on share ownership, board of supervisors and mostly board of directors. Remuneration committee is a new study direction in corporate governance study area. This study enriches the corporate governance literature and builds a basis in remuneration committee study.

8. Limitations of Study

Through the study, several limitations can be found. Firstly, there are only A-share companies data used in this study, lacking data from other securities segments, like B-share and H-share. Thus, the current study did not cover the whole China securities market. Secondly, there are only 150 representative samples studied, which is much less than the volume of whole market, hence, that may influences the research results. Thirdly, the data collected are all generated in 2014. It lacks historical data comparison and long-term study. And that may lead to a one-sided result. It is possible that, in other years, the relationship between corporate governance, remuneration committee and dividend policy is not like 2014. Fourthly, the independent variables studied in this research may not be so perfect to reflect the true factors affecting dividend policy. For example, industry index is not the only viable to represent the industry development, and the whole market can be divided more richly, so the variables can be more extended. For independent directors, here number of independent directors in RC and independent ratio of RC are used in the research, but the quality of independent directors is hard to evaluate, then the study did not adopt this variable. Fifthly, dividend policy includes

stock dividend payment as well, but this study did not cover the matetr. To sum up, this research can be studied further.

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